Journal of RAK (Financial Accounting Research) Vol.6 No.1

JURNAL RAK (RISET AKUNTANSI KEUANGAN)
URL : http://jurnal.untidar.ac.id/index.php/RAK

IMPACT OF FINANCING DECISIONS ON PROFITABILITY DIMEDIENT POLICY

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ARTICLE INFORMATION

Article history:
Received date: 30/8/2020
Received in revised form: 21/9/2020
Accepted: 3/2/2021
Available online: 30/4/2021

Keywords:funding decisions, dividend policy, profitability

ABSTRACT

Funding decisions are management decisions in investment financing. The purposes of the studies were to determine the impact of funding decisions on dividends policy mediated by profitability. The population of this research is companied registered in the Jakarta Islamic Center for the period 2017-2019. The sample selection method is based on the specified criteria. The data's analysis technique used parth analysis. The results of the research shows that funding decisions have an impact on dividend policy. Profitability affects dividend policy. Der's proxied funding decision has no effect on profitability. Funding decisions proxied by DER have an effect on profitability. Funding decisions affect dividend policy mediated by profitability.

INTRODUCTION

The biggest expectation of shareholders is a dividend, but most issuers of dividends are a very burdensome thing. This means that the issuers in such a condition is required to always set aside the profit it earns each year for dividend payments to investors. Dividend policy is a decision that will be taken by issuers whether year-end profits will be distributed to shareholders or in retained earnings to increase capital in financing investment in the future (Murhadi, 2013). The Devdend Payout Ratio (DPR) reflects the dividend policy, the greater the profit that will be distributed in the form of dividends, the more investors will continue to invest. In certain situations, if the performance of a company is considered good, then an issuer can determine the size of the DPR which is adjusted according to investor expectations and without neglecting the interests of the issuer to be going concern and grow healthy. However, the dividend will be divided depending on the respective policies used by each issuer and the consideration of several indicators(Liem, Murhadi, & Sutejo, 2013). Indicators that can influence dividend policy are regulatory rules, issuer's funding needs, liquidity, issuer's ability to borrow, limits or limits in debt contracts, control, and recent observations.

Company decisions that are related to determining the source of funds which will be used to determine the optimal balance of funds with the use of sources of funds from inside and outside the company are called funding decisions (Jogiyanto, 2014). The funding decision is used by the company to finance investments that are considered feasible. Funding decisions from outside the company are in the form of debt. The funding decision directly affects the amount of risk borne by the shareholders and the high rate of return or the expected level of profit. The components for funding decisions are reflected in leverage.

This profitability reflects the issuer's ability to finance personal operational activities with the aim of creating a level of profit in the form of profit and economic value on income, net assets, and personal capital (Cashmere, 2018). Profitability is one of the indicators that influence funding decisions, namely the comparison of net profit with the issuer's private capital as measured by ROE.

Research (Taroreh & Thaib, 2015) states that debt policy and profitability simultaneously affect dividend policy. Personally or for each variable, debt policy affects but negatively on dividend policy. Profitability affects dividend policy (Ginting, 2018) explain that leverage does not comply with dividend policy.

Profitability influences dividend policy (Fathonah & Amanah, 2016) profitability does not affect dividend policy. (Hamid, Kusrina, & Wardoyo, 2016) explain funding decisions do not affect profitability. (Gunde, Pure, & Mirah, 2017) funding decisions that are proxied by liquidity and leverage also affect profitability.

The problem that occurs in this research is whether there is an impact of funding decisions on dividend policy mediated by profitability.

LITERATURE REVIEW

Dividend Policy

Prior to announcements and payments to shareholders, an issuer must establish a dividend policy. This policy is usually also considered the upper part of the spending decision, more specifically internal spending (Sitanggang, 2012). How much later the dividend will be distributed, it will all be taken from the General Meeting of Shareholders (GMS), through the meeting it will be determined whatever the dividend per share is, what types of shares will be distributed, when will the dividend distribution be announced, and the date the dividend will be paid. There are two parties who have interests and but also conflict with this policy, namely the interests of shareholders who really expect dividends and the interests of the company to maintain earnings. Whatever amount the issuer will pay depends on the dividend policy (Jogiyanto,2014). More shareholders will be attracted to issuers who pay higher shares and will later generate high dividends as well. With this understanding, high dividend payments can attract shareholders to invest in the issuer.

According to (Sitanggang, 2012) dividend policy is a decision in determining the amount of net profit that will be obtained by the issuer which will be distributed to shareholders as dividends and how much profit is retained for cost sources within the company. If the company's conditions will hold profits, it has the aim of management having to commit to investors that later management will be able to promise the level of profit that shareholders expect later.

Funding Decision

A policy that is considered important for an issuer that is closely related to the source of funds for the issuer's operational funding is the funding policy. The decision on the funding used is reflected through leverage. According to (Brigham & Houston, 2013). Leverage is a ratio that is a reflection of how far the issuer uses its funds through debt. According to(Agus Harjito, 2011) in the scope of business, leverage is defined as being more directed to the use of assets and sources of funds for issuers, where the process of using the issuer must still incur fixed costs or expenses. For an issuer in a condition where the issuer has high leverage, the higher the risk that will be passed by the issuer (Rivandi, 2017). Leverage is a reflection of how much a company will be financed through debt. If the use of this debt is high, it can make the company dangerous, because the issuer or company will be trapped in a large level of debt and it is difficult to get rid of the debt burden.

Profitability

Profitability is the ability of an issuer to make a profit within a certain period. Meanwhile, according to (Cashmere, 2018). This understanding of profitability is a ratio that reflects the ability of the issuer to earn a profit within a certain period. The issuer will pay dividends as a signal regarding the company's success in accounting for profits. The existence of this signal means that the issuer's ability to pay dividends is a function of profit. The absolute thing that must be owned by the company if it wants to pay dividends is profitability. An investor will be easily attracted, will invest capital, and expand his business with an issuer who is good at earning profits, on the contrary if the level of profit is small or low, it is difficult to get investors to invest their capital. The function of the existence of this profit for issuers is used for evaluation material and the effectiveness of managing business entities.

One of the basis for assessing the creation of an issuer's condition is seen in its profitability. So with that, a tool is needed to analyze its value. For the tool, it means financial ratio (Cashmere, 2018). This profit ratio measures the effectiveness of the issuer according to the returns obtained from investments and sales. In business, this ratio has a very important meaning, namely as a form of going concern and maintaining long-term nose continuity, this is the existence of this profit proving whether a business has a future prospect for the future or not. Based on this explanation, the business entity will continue to have goals and strategies to increase its profitability, because the higher the level of this ratio, the more secure the business entity with its survival will be.

Conceptual Framework

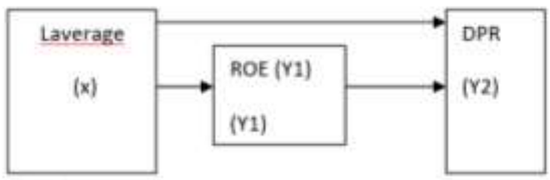

Figure 1. Conceptual Framework

HYPOTHESIS

The funding decision is the company's decision to finance investments both from the company's internal and external companies. If debt increases, it can affect the level of net sales provided by shareholders, which means that the higher the issuer's debt, the lower the issuer's ability to pay dividends. Partially debt policy affects dividend policy(Taroreh & Thaib, 2015; Wahjudi, 2019; Yudiana & Yadnyana, 2016).

H1: Funding decisions affect dividend policy

Profitability is the ability of the issuer to earn (profitability) at the level of sales, assets, and share capital. The profits obtained by the issuer can affect the level of dividends that will be distributed to shareholders. The high profit earned by the issuer is shown by the better performance of the company, due to the higher level of return on investment. For example, if the level of profitability of the issuer is high, the issuer will get a high profit. Profitability affects dividend policy(Basri, 2019; Ginting, 2018; Taroreh & Thaib, 2015)states that profitability affects dividend policy. The hypotheses used are:

H2: Profitability affects dividend policy

Most issuers using financial leverage expect that the profits that will be received from the use of the funds for these financing activities are greater than the fixed costs that they will later bear for the use of these funds. (Sudana, 2015). Regarding a good or stable situation, the use of Financial Leverage can have a good effect in the form of increasing Return On Equity (ROE). This is because the rate of return on the issuer's operating profit is greater than its fixed expenses. Meanwhile, the use of Financial Leverage can have an unfavorable effect in the form of a decrease in ROE, if it is used for an unstable economic situation.(Gunde et al., 2017)funding decisions proxied by liquidity and leverage have an effect on profitability. The hypotheses used are:

H3:Funding decisions affect profitability

The company's funding decision to finance a predetermined investment has an impact on company finances. Funding sourced from the company's external sources has an impact on increasing revenues and expenses. Companies that are able to use external funding or debt wisely will gain profit or profitability. Profitability obtained by the company will be given to shareholders in the form of dividends.(Gunde et al., 2017) funding decisions proxied by liquidity and leverage have an effect on profitability ((Taroreh & Thaib, 2015). (Ginting, 2018)states that profitability has an effect on dividend policy. The hypotheses used are:

H4: Funding decisions have an effect on dividend policy mediated by profitability.

RESEARCH METHODS

This research is quantitative research. The research population is companies listed in the Jakarta Islamic Index 2017-2019. The sample method uses according to the specified criteria. The number of research samples is 19 companies. The research-bound variable is Dividend Policy. Dividend policy is the decision whether the profits earned by the issuer will be distributed to shareholders as dividends or will be retained in the form of retained earnings used to finance future investments. This is measured through the Dividend Payout Ratio, (DPR) in this study used the formula:

$$DPR = \frac{\text{Dividend Per Share}}{\text{EPS}} x\ 100$$

The independent variable is leverage. Leverage is a ratio that looks at the measurement of the extent to which issuers can use funds through debt. For the calculation of leverage, through the formula:

$$DER = \frac{\text{Total Debt}}{\text{Equity}}$$

The mediating variable is profitability. Profitability is proxied through ROE. Profitability ratio is a ratio whose measurement looks at the ability of the issuer to earn a profit on the capital used in earning profit. For the calculation of Profitability, through the formula:

$$ROE = \frac{\text{Net profit}}{\text{Equity Shareholders}}$$

Collecting data through documentation. The documentation carried out is by collecting all secondary data published through the official IDX address regarding issuers listed on the IDX in 2017-2019. The analysis technique uses path analysis along with multiple linear regression

RESEARCH RESULTS AND DISCUSSION

Classic Assumption Test Results

1. Normality test

Table 1. Normality Test Results

Line	asymp. Sig. (2-tailed)	Information
DER DPR	0.883	Normal
ROE DPR	0.897	Normal
DER ROE	0.883	Normal

Data source: processed, 2020

Table 1 the results of asymp sig are above 0.05, this explains normal research data.

2. Multicollinearity Test Results

Table 2. Multicollinearity Test Results

Line	VIF	Information
DER DPR	3,696	Free of multicollinearity
ROE DPR	3,722	Free of multicollinearity
DER ROE	1.002	Free of multicollinearity

Data source: processed, 2020

According to table 2, the VIF value is below 10, this shows that the data in this study are free from multicollinearity symptoms.

Table 3. Heteroscedasticity Test Results

Line	Sig	Information
DER DPR	0.606	Free of heteroscedasticity
ROE DPR	0.687	Free of heteroscedasticity
DER ROE	0.569	Free of heteroscedasticity

Data source: processed, 2020

Table 3 has a value of sig> 0.05, it explains the heteroscedasticity-free research data.

Table 4. Autocorrelation Test Results

Line	Sig. (2-tailed)	Information
DER, ROE DPR	0.351	Autocorrelation free
DE ROE	0.351	Autocorrelation free

Data source: processed, 2020

Table 5. Regression Test Results With Path Analysis

Variable	Beta		sig value	Conclusion
DER DPR	-0.853	-3,576	0.001	Take effect
ROE DPR	0.293	2,338	0.024	Take effect
DER ROE	0.399	2.064	0.044	Take effect

Data source: processed, 2020

Table 6. Direct and Indirect Influence

Information	Indirect	Live
DER DPR		-0.853
ROE DPR	0.293	
DER ROE	0.399	
Indirect effect 0.293 x 0.399		0.116
Total Influence		-,0.737

Data source: processed, 2020

Funding Decisions Affect Dividend Policy

Based on table 5, funding decisions that are proxied by lavareage have a negative effect on dividend policy. .The higher the level of obligations that have been used in the issuer's capital structure, the higher the total liabilities. The existence of a debt level for a turn can affect the small amount of net profit provided to shareholders as well as dividends that will be received later, because the issuer's debt will have a higher priority than the distribution of dividends. The funding decision has a negative relationship to dividend policy, meaning that the higher the issuer's debt level, the lower the issuer's ability to pay dividends.

The results of this study are consistent with the sigyal theory, funding decisions made by companies are in the form of debt which has an impact on decreasing the value of the dividends distributed. This gives a signal for investors and potential investors to invest in the company. The results of this study are consistent with research(Taroreh & Thaib, 2015; Wahjudi, 2019; Yudiana &

Yadnyana, 2016) which states that funding decisions that are proxied by leverage and liquidity have a negative effect on dividend policy.

Profitability Affects Dividend Policy

According to table 5 profitability positive influence on dividend policy. Profitability generated by large companies, the dividends paid to shareholders are also large. This means that issuers that have a profit level can determine the level of dividend payments and confidence and signal the quality of their profits. Profitability is shown through the ability of the issuer to earn a profit for a certain period. Management must make dividend payments to provide signals related to the success of the issuer's bookkeeping profit (Cashmere, 2018).

Research in line with researchers (Arifah & Suzan, 2018; Basri, 2019; Gunde et al., 2017) profitability has an effect on dividend policy. The company's financial condition is stable and obtaining stable profitability is the basis for dividend distribution to shareholders. Most issuers in obtaining profitability will distribute dividends to shareholders.

Funding Decisions Affect Profitability

Based on table 5, funding decisions have an effect on profitability. The company's decision to finance investments with debt has several impacts on costs that must be managedtalk about debt. The comparison between the income earned using debt and the costs incurred is profitability. The company is able to use debt optimally so as to generate profits.

The data results are in line with (Gunde et al., 2017) funding decisions proxied by liquidity and leverage have an effect on profitability. The results of this study are not consistent with (Hamid et al., 2016) which explains funding decisions do not affect profitability (ROE).

Funding Decisions on Dividend Policy are Mediated by Profitability

Based on table 6 which states that the total effect is greater than the direct effect on the relationship of funding decisions to dividends mediated by profitability. This means that profitability is able to mediate the relationship between funding decisions and dividend policy. The company is able to optimize the use of sources of funds in the form of debt. The results of the company's operations are funded by debt in the form of profitability. Companies that get profitability will use it for expansion and distribute dividends to shareholders.

CONCLUSIONS AND SUGGESTIONS

Conclusion

Funding decisions have a negative effect on dividend policy. The higher the debt ratio, the higher the burden that needs to be incurred. This will result in lower dividends distributed to shareholders.

Profitability has a positive influence on dividend policy. The higher the profitability ratio (ROE) of the company, the better the company's financial condition. This will increase the value of dividends distributed to shareholders.

Funding decisions have a positive effect on profitability. The issuer's funding decision used for the company's operations raises costs and revenues. The income earned is greater than the expense, the company gets profitability.

Funding decisions on dividend policy are mediated by profitability. Funding against the company's predetermined investments gives the company profitability. Profitability is used by the company for expansion and distributing dividends to shareholders

Suggestion

1. Companies must pay attention to the debt ratio so as not to cause losses in using debt
2. Dividend distribution must be adjusted to the company's financial condition
3. Related to the next researcher addition indicators that affect dividend policy should use a moderating variable

Implications and Limitations

The implication in this study is that companies can prevent losses in the use of debt by carefully analyzing the debt ratio. Determination of the company's policy in the distribution of dividends by measuring the financial condition of the issuer. The limitation of this article is that this researcher only uses the Dividend Payout Ratio (DPR) for determining dividend policy. There are other indicators that can be used in determining dividend policy such as the dividend income ratio (Dividend Yield) so as to provide a complete picture of the determinants of the company providing dividends to investors.

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